

PERFORMANCE AUDIT
OF THE
OFFICE OF HUMAN RESOURCES
DEPARTMENT OF STATE
December 2000

EXECUTIVE DIGEST

OFFICE OF HUMAN RESOURCES

INTRODUCTION	This report, issued in December 2000, contains the results of our performance audit* of the Office of Human Resources (OHR), Department of State.
AUDIT PURPOSE	This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*.
BACKGROUND	<p>OHR's mission* is to support the overall human resource needs of the Department's employees, managers, and executives and strive to foster a positive, productive work environment where employees are valued and managers effectively lead their organizations.</p> <p>The primary functions of OHR include recruitment and appointment of applicants, contract administration and grievance handling for a large unionized work force, coordination and delivery of employee training, administration of classification and compensation, payroll and benefit data entry, disability management, and other traditional programs. OHR is also responsible for ensuring that the Department of Civil Service rules and regulations</p>

* See glossary at end of report for definition.

are followed and sound personnel practices are observed throughout the Department.

For the fiscal year ended September 30, 1999, OHR's expenditures totaled approximately \$1.6 million. As of February 29, 2000, OHR employed 21 permanent employees, 2 limited-term employees, and 1 student.

AUDIT OBJECTIVES,
CONCLUSIONS, AND
NOTEWORTHY
ACCOMPLISHMENTS

Audit Objective: To assess the effectiveness and efficiency of OHR in meeting its responsibilities.

Conclusion: We concluded that OHR was generally effective and efficient in meeting its responsibilities. However, we noted reportable conditions* related to the training program, monitoring of vacancies, timeliness of processing grievances, and limited-term appointments* (Findings 1 through 4).

Noteworthy Accomplishments: OHR contracted with the IBM Corporation to develop a three-year strategic business plan to align OHR's mission, goals*, and objectives* with the Department's overall strategy and to develop implementation project plans for streamlining selected OHR business processes. OHR issued its three-year strategic business plan in February 2000.

In addition, we conducted a stakeholder survey addressing the pay-for-performance, hiring, and training programs. The results of our survey of the stakeholders indicated that they were generally satisfied with the services provided by OHR.

* See glossary at end of report for definition.

Audit Objective: To evaluate the internal control* established by OHR for the Department's payroll and personnel functions.

Conclusion: We concluded that OHR's internal control for the Department's payroll and personnel functions was generally effective and efficient. However, we noted a reportable condition related to the Data Collection and Distribution System (DCDS) time and attendance reporting (Finding 5).

AUDIT SCOPE AND
METHODOLOGY

Our audit scope was to examine the program and other records of the Office of Human Resources. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our methodology included examination of OHR records and activities for the period October 1, 1997 through February 29, 2000. We conducted a preliminary review of OHR's operations to gain an understanding of its activities. This included interviews of OHR staff and management and a survey of stakeholders. Also, we reviewed OHR's goals and objectives, organizational structure, internal policies and procedures, and business plans. We assessed OHR's ability to meet its mission, goals, and objectives. Also, we evaluated OHR's monitoring of the training program.

AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP

Our audit report includes 5 findings and 5 corresponding recommendations. The Department's preliminary

* See glossary at end of report for definition.

response indicated that it agreed with all of the recommendations.

The Department complied with both of the prior audit recommendations included within the scope of our current audit.

December 27, 2000

The Honorable Candice S. Miller
Secretary of State
Treasury Building
Lansing, Michigan

Dear Secretary Miller:

This is our report on the performance audit of the Office of Human Resources, Department of State.

This report contains our executive digest; description of agency; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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Description of Agency

The Department of State employs approximately 2,200 individuals and is led by the Secretary of State who is elected to serve a four-year term. The Department operates 178 branch service offices throughout Michigan. The Department administers motor vehicle and driver licensing programs; supervises administration of Statewide elections and the Campaign Finance Act; preserves, protects, and promotes the State's history; and provides consumer protection for motor vehicle owners.

The Office of Human Resource's (OHR's) mission is to support the overall human resource needs of the Department's employees, managers, and executives and strive to foster a positive, productive work environment where employees are valued and managers effectively lead their organizations.

The primary functions of OHR include recruitment and appointment of applicants, contract administration and grievance handling for a large unionized work force, coordination and delivery of employee training, administration of classification and compensation, payroll and benefit data entry, disability management, and other traditional programs. OHR is also responsible for ensuring that the Department of Civil Service rules and regulations are followed and sound personnel practices are observed throughout the Department.

For the fiscal year ended September 30, 1999, OHR's expenditures totaled approximately \$1.6 million. As of February 29, 2000, OHR employed 21 permanent employees, 2 limited-term employees, and 1 student.

Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our performance audit of the Office of Human Resources (OHR), Department of State, had the following objectives:

1. To assess the effectiveness and efficiency of OHR in meeting its responsibilities.
2. To evaluate the internal control established by OHR for the Department's payroll and personnel functions.

Audit Scope

Our audit scope was to examine the program and other records of the Office of Human Resources. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Audit Methodology

Our audit procedures, conducted during the period September 1999 through February 2000, included an examination of OHR records and activities for the period October 1, 1997 through February 29, 2000.

To attain our audit objectives, we conducted a preliminary review of OHR's operations. This included interviews of OHR staff and management and a survey of stakeholders to obtain an understanding of the strengths and weaknesses of the services provided by OHR. Also, we reviewed OHR's mission, goals and objectives, organizational structure, internal policies and procedures, and business plans to familiarize ourselves with OHR's activities. We utilized the information gathered in our preliminary survey to assess which services had the greatest impact on the operations of OHR and the Department.

We assessed OHR's ability to meet its mission, goals, and objectives. We tested OHR's administration, monitoring, and evaluation methods of the training, hiring, labor relations, and payroll functions.

We evaluated OHR's monitoring of the training program. We also evaluated the effectiveness and efficiency of the training program.

Agency Responses and Prior Audit Follow-Up

Our audit report includes 5 findings and 5 corresponding recommendations. The Department's preliminary response indicated that it agreed with all of the recommendations.

The Department complied with both of the prior audit recommendations included within the scope of our current audit.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS AND EFFICIENCY

COMMENT

Audit Objective: To assess the effectiveness and efficiency of the Office of Human Resources (OHR) in meeting its responsibilities.

Conclusion: We concluded that OHR was generally effective and efficient in meeting its responsibilities. However, we noted reportable conditions related to the training program, monitoring of vacancies, timeliness of processing grievances, and limited-term appointments.

Noteworthy Accomplishments: OHR contracted with the IBM Corporation to develop a three-year strategic business plan to align OHR's mission, goals, and objectives with the Department of State's overall strategy and to develop implementation project plans for streamlining selected OHR business processes. OHR issued its three-year strategic business plan in February 2000.

In addition, we conducted a stakeholder survey addressing the pay-for-performance, hiring, and training programs. The results of our survey of the stakeholders indicated that they were generally satisfied with the services provided by OHR.

FINDING

1. Training Program

OHR had not established control procedures to help ensure that the training program met the goals of the Department.

The Department's goals were to enhance customer service, increase efficiency, and meet legislative mandates. OHR acts as the Department's central training unit. OHR's 1999 Business Plan included goals to provide highly qualified staff,

offer continuous opportunities for learning and development, and develop a plan to ensure that training meets the needs of the Department.

We reviewed OHR's process for administering the training program and noted the following:

- a. OHR had not developed a policy that provided a formal training process for program areas to follow in order to obtain training and that stipulated the criteria used for approving training programs. Some program areas scheduled and obtained funding for training through OHR, while other program areas independently scheduled and funded their own training sessions.
- b. OHR did not obtain the development needs of the Department. Consequently, OHR did not develop a training plan addressing those needs.
- c. OHR did not monitor and track training scheduled independently of its unit. The Department employed an average of 2,274 employees, and OHR's records indicated that approximately one half of these employees completed training. OHR monitored and tracked only training that was scheduled and approved through its unit.

Training sessions that were scheduled, approved, monitored, and tracked by OHR were generally relevant to the Department's goals. However, lack of a formal training policy, a training plan, and an effective monitoring tool for all training impedes OHR's ability to achieve the Department's training goals.

OHR contracted with an outside vendor to develop a plan to align OHR's mission, goals, and objectives with the Department's overall strategy. As a result, OHR intends to develop a strategic training plan by September 1, 2000.

RECOMMENDATION

We recommend that OHR establish control procedures to help ensure that the training program meets the goals of the Department.

AGENCY PRELIMINARY RESPONSE

OHR agreed with this recommendation and indicated that it is developing a strategic training plan that will address issues identified in this finding.

FINDING

2. Monitoring of Vacancies

OHR did not monitor the status of the Department's position postings to ensure compliance with OHR procedures.

OHR had the responsibility for all processes related to filling vacancies within the Department. OHR approved the postings of all vacancies and provided final approval of all selections. The program areas with vacancies performed the recruiting and interviewing functions and selected the final candidate. OHR's procedures require that program areas must fill vacancies within six months of being posted.

As of October 1999, the appointment and vacancy database* contained a total of 2,109 positions that were posted since April 1997. Our review of OHR's database disclosed:

- a. A total of 181 (9%) of the positions were filled, canceled, or still remained vacant from 6 months through 12 months after the position was posted.
- b. A total of 102 (5%) of the positions were filled, canceled, or still remained vacant more than 12 months and less than or equal to 24 months after the position was posted.
- c. A total of 15 (1%) of the positions were canceled more than 24 months after the position was posted.

* See glossary at end of report for definition.

For the positions that still remained vacant on the database at the time of our review, OHR did not have a formal process to determine whether the vacancies were still active.

RECOMMENDATION

We recommend that OHR monitor the status of the Department's position postings to ensure compliance with OHR procedures.

AGENCY PRELIMINARY RESPONSE

OHR agreed with this recommendation and plans to make changes to the database that will allow better monitoring of positions.

FINDING

3. Timeliness of Processing Grievances

OHR's control procedures did not ensure the timely processing of all grievances.

Department of Civil Service (DCS) regulations and various union agreements contain requirements for timely response to and resolution of grievances. The grievance process contains six steps, and each step requires a response from the Department on a specified date, unless all parties involved agree to extend the response date. If the Department does not respond in a timely manner to the third step of the grievance process, the employee has the option to appeal to the fourth step in which the process is sent to an outside arbitrator. Because the Department has no control over the process once it reaches the fourth step, it would be in its best interest to timely respond to all grievances in the third step of the grievance process.

We reviewed 22 files for grievances at the third step in which the Department had not responded prior to the required response date and noted the following:

- a. The Department did not file for extensions in 8 (36%) of the 22 files. The Department's response or lack of response was an average of 81 weekdays beyond the required response date in these 8 files.

- b. The Department filed for extensions in 14 (64%) of the 22 files. However, the Department did not respond to 3 of the 14 grievances by the agreed upon extension dates. The Department's response or lack of response was an average of 32 days beyond the agreed upon extension date in these 3 files.

This issue was raised in a prior audit finding, and OHR established a grievances database to address the timeliness concerns. Consistent use of this database should help ensure that grievances are handled in a timely manner.

RECOMMENDATION

We recommend that OHR enhance its control procedures to help ensure the timely processing of all grievances.

AGENCY PRELIMINARY RESPONSE

OHR agreed that a formal process should be in place that documents the timeliness of grievance processing. OHR informed us that it has established a process that uses a database to officially monitor the grievance processing.

FINDING

4. Limited-Term Appointments (LTAs)

OHR's control procedures did not ensure the timely extension of LTAs.

DCS regulation 3.10 states that LTAs are expected to last 720 or more hours but have fixed ending dates and shall not exceed two years unless approved for extension by DCS. The departments may use LTAs for positions with full-time, part-time, seasonal, intermittent, or job share work schedules.

OHR informed us that it received verbal instructions from DCS, stating that extensions were not necessary for preauthorized* positions.

As of November 1999, 144 employees held LTA positions with the Department. We determined that 26 of the 144 employees remained in their LTA positions for

* See glossary at end of report for definition.

more than two years. OHR classified 19 of the 26 positions as preauthorized and the remaining 7 of the 26 positions as nonpreauthorized*. OHR obtained approval from DCS to extend the 7 nonpreauthorized positions in accordance with DCS regulation 3.10, but OHR did not obtain approval to extend the 19 preauthorized positions.

During our review, OHR issued a memorandum to all of its staff stating that any preauthorized positions that the Department wishes to extend beyond two years must first be approved by DCS.

RECOMMENDATION

We recommend that OHR enhance its control procedures to help ensure the timely extension of LTAs.

AGENCY PRELIMINARY RESPONSE

OHR agreed with this recommendation and will comply as necessary with DCS regulations in the future.

INTERNAL CONTROL

COMMENT

Audit Objective: To evaluate the internal control established by OHR for the Department's payroll and personnel functions.

Conclusion: We concluded that OHR's internal control for the Department's payroll and personnel functions was generally effective and efficient. However, we noted a reportable condition related to the Data Collection and Distribution System (DCDS) time and attendance reporting.

* See glossary at end of report for definition.

FINDING

5. DCDS Time and Attendance Reporting

OHR needs to improve its control procedures for time and attendance reporting on DCDS.

DCDS will not release a time sheet until it is certified. The MAIN HRS (Michigan Administrative Information Network Human Resources System) procedure manual, section 14.16, states that certification must be done by someone other than the person who entered the data collection information. The purpose of certification is to provide an independent verification that time entered onto the system agrees with the time sheets. In addition, the Department's policies require the certifier to review the time sheets prior to certification.

Approximately 44% of the Department's employees reported their time on DCDS by direct online access, while timekeepers entered the remaining 56% of the employees' time reports. We reviewed time reports for 60 employees for one pay period. Ten of these employees reported their time directly on DCDS, and we noted no exceptions with these reports. The time reports for the remaining 50 employees were entered by a timekeeper. The Department's methods for entering time by a timekeeper include the paper summary method*, the Remote Office Access Management (ROAM) method*, and the time sheet method*. We reviewed 15, 25, and 10 time reports for each of these methods, respectively, and noted the following:

- a. Thirteen (52%) of the 25 ROAM method reports resulted in the certifier also handling the timekeeping functions.
- b. Four (16%) of the 25 ROAM method reports were certified by OHR without access to the employees' individual time sheets prior to certification.

Many of the Department's employees are located in the branch offices throughout the State, and the Department has had difficulty providing all employees with direct

** See glossary at end of report for definition.*

computer access at these locations. It is important to improve the control procedures related to the use of a timekeeper in order to ensure accurate time and attendance reporting.

RECOMMENDATION

We recommend that OHR improve its control procedures for time and attendance reporting on DCDS.

AGENCY PRELIMINARY RESPONSE

OHR agreed with this recommendation and will comply by December 31, 2001 as it upgrades its branch office system.

Glossary of Acronyms and Terms

appointment and vacancy database	Master selection record containing the status of all appointments and vacancies posted since April 1997.
DCDS	Data Collection and Distribution System.
DCS	Department of Civil Service.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes.
goals	The agency's intended outcomes or impacts for a program to accomplish its mission.
internal control	The management control environment, management information system, and control policies and procedures established by management to provide reasonable assurance that goals are met; that resources are used in compliance with laws and regulations; and that valid and reliable performance related information is obtained and reported.
limited-term appointment (LTA)	An appointment that has an ending date at the time of the appointment and is expected to last 720 or more hours. It shall automatically expire at the end of the appointment unless terminated earlier by the appointing authority. LTAs shall not exceed two years from the date of appointment unless approved for extension by DCS.

mission	The agency's main purpose or the reason the agency was established.
nonpreauthorized	A term referring to the lack of authorization granted by DCS to appointing authorities to establish and reallocate positions in predetermined classes and levels in accordance with standards and procedures published by DCS. The appointing authority must request authorization from DCS to establish and reallocate these positions.
objectives	Specific outputs a program seeks to perform and/or inputs a program seeks to apply in its efforts to achieve its goals.
OHR	Office of Human Resources.
paper summary method	A time reporting method that summarizes biweekly time reports for groups of employees onto one report that is then used to input time onto DCDS.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
preauthorized	A term referring to the authorization granted by DCS to appointing authorities to establish and reallocate positions in predetermined classes and levels in accordance with standards and procedures published by DCS.
Remote Office Access Management (ROAM) method	A time reporting method that the Department of State's branch office employees use to connect to DCDS via a modem.

reportable condition	A matter coming to the auditor's attention that, in the auditor's judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.
time sheet method	A time reporting method in which employees submit time sheets to timekeepers for input onto DCDS.